WIESER'S NATURAL VALUE.

The long expected translation of "*Der Natürliche Werth*" has appeared, and finds a comparatively large public ready to welcome it. The older English and American economists, while recognizing that the Austrians have done careful and suggestive work in economic theory, do not seem to have been turned to any great extent from their former ways of thinking; but it is a significant fact that the young men whose ideas upon economic theory have been formed since the Austrian writings became accessible have quite generally adopted the leading conceptions and nomenclature of the Austrian school. This does not mean that the young men consider the older theories altogether wrong or the new theories altogether correct and complete, but it does indicate that an important influence has been brought to bear upon economic thought. The extent of this influence cannot yet be told, but it is not too early to form at least an opinion as to what Austrian conceptions are likely to become permanent factors of economic theory.

It is inevitable that such independent thinkers as Menger, Wieser, Böhm-Bawerk, and Sax should differ from each other as well as from the theorists of other schools. But Wieser's work on Natural Value, more than any other production of the Austrian economists, presents clearly and fully, the fundamental ideas which the different members of the school hold in common. A review of that work naturally involves a criticism of what has come to be known as the Austrian theory of value.

By far the most prominent characteristic of the Austrian theory of value is its complete dependence upon the principle of marginal utility. A man having an income of $1000, spends part of it for necessities which are of immeasurable utility to him, other portions are used for the gratification of

desires of less and less intensity. The satisfaction which would in that case depend upon the possession of the last dollar of the income would measure the marginal utility (or, as the Austrians would say, the value) of a dollar to the man in question. Of course the principle applies to stocks of other goods as well as to dollars.

As is well known, this principle of the decreasing utility of duplicated goods is by no means new to economic theory or to the English literature of the subject. Senior* mentioned it as early as 1836 and Robert Jennings† in 1855 set it forth as "the foundation of the changes of money price, which valuable objects command in times of varied scarcity and abundance." Passing by numerous French and German writers who enunciated the principle with more or less clearness, we find that Jevons preceded the Austrian economists in developing the theory that marginal ("final") utility rather than cost of production is the basis for the ratios of exchange. Professor J. B. Clark ‡ also approached the Austrian conception in making value "the measure of effective utility." It is for the systematic and thorough development of the theory of marginal utility rather than for the theory itself that we are indebted to the Austrian school. While the conception is older, the term itself, marginal utility (*Grenznutzen*), was first introduced by Wieser in his "*Ursprung des Werthes*," 1884. It is now generally accepted by economic writers.§

Although Jevons and the Austrians agree in considering marginal utility the basis of value, we find an important difference in regard to the fundamental meaning of the word value. Cairnes opens his political economy with this statement: "The sense proper to value in economic discussion

*In a treatise on Political Economy, contributed to the "Encyclopedia Metropolitana," p. 12 of the second (cabinet) edition. Quoted by Jevons in the "Theory of Political Economy," p. 53.

†Quoted by Jevons, p. 55.

‡*New Englander*, July, 1881.

§ See Marshall's "Principles of Economics," second edition, p. 14, note.

may, I think, be said to be universally agreed upon by economists, and I may, therefore, at once define it as expressing the ratio in which commodities in open market are exchanged against each other." Jevons accepted this concept, but felt obliged to avoid the use of the word value, because he recognized that popular usage did not agree with the definition of the economists. The Austrians, on the other hand, follow Menger in defining value of goods as "the importance which concrete goods, or quantities of goods, receive for us from the fact that we are conscious of being dependent on our disposal over them for the satisfaction of our wants."* The difference must not be overlooked. On one side value is regarded as a ratio between commodities, on the other as importance for human well-being. One conception is objective, the other subjective. In English theory value is a relation between commodities, in Austrian theory it is primarily a relation of commodities to human wants. According to the English definition no commodity could rise in value unless the other commodities with which it was compared fell to a corresponding extent. From the Austrian standpoint a commodity may, through scarcity or increased need, increase in value without regard to other commodities.

Although the English-speaking public has long been drilled in the ratio concept of value, there can be no doubt that common usage is much more in keeping with the Austrian view. The ratio concept is more simple from a theoretic standpoint, but it may well be hoped that the great problems of economic policy can be more satisfactorily solved when the fundamental concept of the science becomes "importance for well-being" instead of "a relation between commodities."

But here again we are indebted to the Austrian economists for systematic and convincing exposition rather than for discovery. In spite of their definitions English economists from Adam Smith down have occasionally spoken of the

* "Natural Value," p. 21.

time and trouble required for obtaining anything as the measure of its value.* Jevons † thought that value in ordinary parlance was identical with final utility, and Professor Clark ‡ not only recognized but adopted the subjective concept. It seems to be largely through Austrian influence, however, that recent contributions to economic theory have generally accepted the subjective concept as the primary meaning of value and used the phrase, "objective value," (or more exactly "objective exchange value,") to designate the power of commodities to command each other in exchange.

The Austrians, as Menger's definition indicates, consider value as primarily an individual matter. The value of a dollar will vary from individual to individual, according to the amount and intensity of their wants, and in inverse ratio to their respective incomes. As the value of a dollar varies among individuals, so will the value of the commodities for which the dollar is exchangeable. The rich man's trifle is the poor man's fortune. Even when the subject of exchange is taken up, the personal valuation is maintained. The exchange value (*Tauschwerth*) of a commodity is the subjective importance of the goods for which the commodity will exchange. Thus it is only when two men are in the same economic condition that even the (subjective) exchange value of a commodity is the same to both of them.

Yet Wieser § recognizes that "when we speak generally of the value of goods we mean the economic rank given them by their prices," and thus is introduced a phase of value which is practically the same as the "power in exchange" of the English writers. This objective exchange value is designated *Verkehrswerth* by Wieser, to distinguish it from the subjective *Tauschwerth*, and the translator has yielded somewhat to English usage in rendering the former term by

* In such expressions value denotes subjective importance, though viewed from the side of cost instead of utility.

† "Theory of Political Economy," pp. 80 and 162.

‡ "Philosophy of Wealth," V.

§ "Natural Value," p. 51.

the phrase "exchange value" without qualification. The relationship between subjective value and market price has been treated more fully by Böhm-Bawerk,* but Wieser's brief statement gives the essential thought. Every one before making a purchase forms some mental estimate of the importance of the article to him, this importance depending of course upon his present supply and need, in accordance with the principle of marginal utility; but before making a rational purchase one must also form a mental estimate of the value of the dollar to him, lest in making one purchase he may spend money required for other purchases of more importance. In other words, everyone must enter the market with all personal valuations expressed in terms of the monetary unit, however much the value of this unit may vary between individuals. A stock of goods placed upon the market does not go to the persons who value them most, but to those whose subjective valuations are expressed in the largest number of dollars and cents. The price then is not fixed by the marginal want which the stock is sufficient to supply but by the marginal money equivalent of these subjective wants. The price does not represent a definite degree of want but simply the amount of money or other commodity which the marginal buyer is willing to give.

Having once shown that prices are developed from the action of personal valuations in the market, the Austrians abandon the subjective standpoint for the time and like the English economists treat exchange value as a relation between commodities.†

* "*Grundzüge der Theorie des Werthschaftlichen Güterwerths,*" in Conrad's *Jahrbücher*, vol. xiii, 1886. See "Positive Theory of Capital," p. 129.

† "Subjective value represents a distinct feeling; that of being dependent upon the possession of a good for the satisfaction of a want,—a distinct degree of personal interest in goods. Objective value, on the other hand, merely represents a definite price; a definite amount of payment which is expected or required in buying or selling. The former has its measure in the different gradations of desire, the latter in the quantities of coin,—in the figures of the price." "Natural Value," p. 51.

"Exchange value is the capacity of a good to obtain in exchange a quantity of other goods. Price is that other quantity of goods" "Positive Theory of Capital," p. 132.

This relapse from the subjective standpoint, whether necessary or not, seems at least unfortunate. The Austrians have given us the vision of a theory of value resting upon the substantial basis of importance to human well-being, but in the field of exchange value where we have the greatest need for some substantial basis, we are left with the old idea that value is an expression of quantity of goods rather than of subjective importance—a relation of goods to each other instead of their relation to human welfare. Looking at economic life from the individualistic standpoint, they have failed to conceive the idea of social utility* as applicable to our present condition of inequality among individuals. The fact that differences in wealth regularly cause goods to pass by the urgent needs of the poor in order to satisfy the slightest wish of the rich has seemed to the Austrians an insuperable barrier to the maintenance of the subjective standpoint in dealing with the exchange value that now governs industrial economy.†

Wieser avoids this difficulty of applying the principles of subjective value to a society where inequality of wealth prevails by imagining a communistic state where private property does not exist and the use of goods is distributed according to needs. The distorting effect of differences in ability to pay is thus removed, as well as the disturbances of "error, fraud, force and chance."

The communistic society, like the person in the individual economy, is supposed to so utilize its goods as to satisfy all wants down to the lowest degree that the total supply of the commodity will cover. The importance of a unit of a commodity, a bushel of wheat for example, may now be accurately gauged by the marginal utility of the supply of that commodity. In such a state every means for the satisfaction of human want would be valued according to the degree of want which would be dependent for its satisfaction upon the

* Professor Clark, for example, looks upon value as a social fact—the measure of final utility to society. See *Yale Review*, November, 1892.

† "Natural Value," bk. ii, III.

particular article in question. It would have what Wieser calls its *natural value.*

This concept of natural value is introduced toward the end of the second book of Wieser's work and becomes the main theme of the remaining books, which are entitled respectively: "The Natural Imputation of the Return from Production," "The Natural Value of Land, Capital and Labor," "The Natural Cost Value of Products," and "Value in the Economy of the State." The fact that the supposition of a communistic state underlies the discussion must not lead the reader to think that the work is a treatise upon socialism. The object of the work is to elucidate the fundamental principles of value and distribution, and to this end the fiction of an ideal communistic state serves two purposes: it eliminates many complications and disturbances which might otherwise detract the student from a clear insight into the underlying principles which are the basis of all value relations, and it also serves to give the student a clearer idea of the real nature of the services for which rent, interest, and extra wages are paid through the consideration of the question whether or not these services would retain their value in a communistic state. The chief difference between natural value and exchange value has already been indicated: the former expresses what would be the marginal utility of goods if they were distributed according to needs, the latter is the marginal valuation when goods are distributed according to the amounts offered in exchange for them. The conceptions have much in common and Wieser constantly indicates the changes which must be made in passing from the realm of natural value to existing conditions.

Our author next takes up the subject of "imputation." When several factors co-operate in the satisfaction of a single want, how is the economic importance of the several factors to be determined? Upon what principle is the value of a service to be imputed, in an economic sense, to the various contributing elements? It is evident that the solution of this

problem involves an explanation of the relation between value and cost of production. It is for the extended treatment of the costs of production that Wieser's work stands pre-eminent among the Austrian writings.

As is well known, the prevailing economic theory makes cost of production the determinant of the normal value of products, while the Austrian economists claim that the amount of the costs is really determined by the value of the products. Does cost determine value or value determine cost? Stated in this way the case appears to be one of direct opposition and Böhm-Bawerk says of it: "That is a question as fundamental for political economy as the question between the Ptolemaic and Copernican systems was for astronomy." * Close study, however, will show that the opposition between the two schools is by no means direct. The Austrians do not disprove, nor even reject, the classical tenet that the values of goods regularly produced under free competition tend to conform to their costs of production. They have simply taken one step back of the English point of view and there perceive that the values of the elements which enter into and make up the costs of production are themselves derived from the utility and scarcity of the various elements. If the Austrians would state their case in this simple form, instead of declaring a revolution, they could hardly be opposed. †

It is to be noted in passing that the Austrian idea of cost is entirely independent of the painfulness of labor which English economists have sometimes vaguely imagined to be the basis of their theory that cost determines value. No one who studies modern social conditions can claim that labor is paid or even tends to be paid in proportion to its painfulness, and furthermore, many items of cost, such as

* "The Austrian Economists," ANNALS, vol. i, p. 371, January, 1891.

† Since this paper was written the relationship between cost and value and the real nature of the cost which regulates value have been treated by Böhm-Bawerk: "*Der Letzte Masstab des Güterwertes*," Zeitschrift für Volkswirtschaft, Socialpolitik und Verwaltung. Dritter Band, II. Heft. "The Ultimate Standard of Value," ANNALS, vol. v, p. 149, September, 1894.

minerals and the use of land, are not produced by labor at all. Cost from the Austrian standpoint is the sacrifice of a utility and unless an equal or greater utility results from any outlay in question, the outlay is not economic. This may not be the idea of cost which best expresses human progress and welfare, but it may well be conceded that it is this form of cost which determines exchange values.*

Instead of treating the value of an element of production as a simple case of value determined by the marginal utility of the element in question, both Wieser and Böhm-Bawerk have chosen to explain cost values as a manifestation of the principle of complementary goods. Menger had proposed to ascertain the value of any good by considering the amount of loss that would result from its annihilation. Upon this principle a single glove carries with it the value of the pair, and each horse of a perfectly matched span is valued at more than half the value of the span, for if either horse should die more than half the value would be lost. In like manner, if a half dozen elements co-operate in forming a desirable product—say a loaf of bread—the lack of any one ingredient might seriously impair the usefulness of the others. So Wieser criticises the position of his predecessor on the ground that were the elements of production valued in this way the sum of their values would exceed the value of the product which is made from them, and the manifest absurdity would be reached that all production is carried on at a loss. Wieser thereupon brings forward his concept of the "productive contribution" (*Beitrag*). "The deciding element is not that portion of the return which is lost through the loss of the good, but that which is secured by its possession."†

In order to arrive at the amount which each element contributes to the value of the product the algebraic method of solution by equations is proposed. Let x, y, z, etc., stand

* For a fuller development of this line of thought, the reader is referred to an article by the present writer entitled "Pain-cost and Opportunity-cost," in the *Quarterly Journal of Economics*, January, 1894.

† "Natural Value," p. 85.

for units of the productive elements, such as materials, labor of different grades, and the use of capital. The same productive elements enter into various products in various proportions. By observing the values and composition of the products (these values being fixed by the marginal utility of the products), we would discover equations after the manner of the following:

$$x + y = 100$$
$$2x + 3z = 290$$
$$4y + 5z = 590$$

from which the unknown values may be determined. Of course, in actual economic life the number of productive elements is almost unlimited, but the number of combinations which would give independent equations is fully as large. Solved in this way, the sum of the productive contributions of the elements is bound to equal the value of the product. The productive contribution which is everywhere assignable to a given element of production is the cause and measure of its value. An increase in the supply of an element would extend it to uses of less importance and so reduce the productive contribution that could be imputed to it. The productive contribution of a given element must be uniform in its different uses for otherwise the element would be transferred from one use to the other.

Wieser's method of solving the problem of the imputation of value to cost goods is stated here somewhat fully because he seems to regard it as an important contribution to economic theory, and constantly refers to it as the basis of his subsequent arguments. This method of solution is, I believe, peculiar to Wieser among the Austrian writers, and I venture to call it the weakest point in his theory of value. Several points of criticism will be briefly stated:

(1) The problem of imputation is to ascertain, not what are the values of the elements of production, but what forces make those values what they are. Wieser's equations might give us the values, but they could never explain the values.

(2) Weiser's method can give us no rules for the apportionment of an element to its different uses, for unless the apportionment is already perfect an element will be given a greater value in one use than in another, the different equations will not be simultaneous, and the solution will be impossible.

(3) The criticism of Menger is not well founded. Wieser, in common with other writers, has failed to distinguish between special and general values. General values are those which prevail in the market where all goods that are precisely alike have the same value. Here the action of the marginal law is apparent. Special values attach to individual articles under special circumstances. The value of a loaded revolver to the waylaid traveler, the value of a mastiff to its fond master and the value of a lost glove when its mate is in possession, are examples of special values. In fact almost every article, when in actual use has in addition to the general (market) value some special value on account of its special adaptation or on account of the delays and inconveniences which are in the way of replacement. Goods ordinarily sell at their general values, a dealer can secure special values only through extortion. General values usually correspond with costs of production, but special circumstances may give a five cent iron bolt the value of thousands of dollars.

Now it will be noticed that in criticising Menger's method of estimating values through loss, Wieser always bases his objections upon special values, and does not notice that his own method of solving through equations would fail completely in the same cases. Add together the special values which attach to every piece of metal in an engine in service and the sum would far exceed the value of the engine. It does not matter. The parts are not bought and sold at their special values. Again let us suppose that bread made without salt would be worthless. Would Menger's formula then assign to the salt a value equal to that of the bread? Only

under the strict condition that no more salt could be obtained. Complementary goods are especially subject to an extra special valuation, but they do not attain this extra valuation in a general market. The fact that salt is an indispensable ingredient of many valuable foods has no effect upon its value so long as the supply is sufficient to satisfy also its less important uses. Menger's principle, when rightly used, is quite correct. The value of anything may be estimated through the loss that would result from its annihilation. But a serious error would be involved should we undertake to derive the general value of a commodity from the loss that might occur under special circumstances.

(4) In maintaining the importance of the principle of complementary goods, Wieser seems to overlook the distinction, which he elsewhere well observes, between the value of a commodity taken as a whole and the value of some small quantity of the commodity. General values have to do with the small portions that are bought and sold at a time. The value of salt, taken as a whole, is indefinitely great, for we could hardly live without it, but the small quantities that are bought and sold at a time have no such importance. It is customary to estimate the value of the world's supply of a commodity as the product of the quantity and marginal value, but if an inhabitant of a neighboring planet should offer to buy the whole supply at the marginal rate we could by no means afford to accept the offer.* There is seldom any cause, however, for estimating the value of a total supply. General values have to do with the small portions that are bought and sold in single transactions. These portions of a commodity have comparatively small value because, if a portion were lost, it could be replaced by simply withholding some of the commodity from its marginal uses. Wieser refers the values of capital and labor to the principle of complementary goods, on the ground that each is indispensable

* Professor Ross has brought out this limitation to marginal utility value in "The Total Utility Standard of Deferred Payments," ANNALS vol. iv, p. 425, Nov., 1893.

for the fruitfulness of the other. It is true that capital and labor as a whole are thus mutually dependent, but labor and capital do not bargain with each other as a whole. The use of either capital or labor is valued in the open market according to its marginal uses, no less truly than it would be if their activities were quite independent of each other.

(5) Menger's division of economic goods into ranks is an impediment rather than a help to a clear understanding of the process of value formation. Menger's conception is adopted by the other Austrians and is well known. Goods of the first rank are those ready for consumption, such as bread and clothing. Their utility is the source of all value and is reflected back to goods of the second rank, such as flour and cloth, and so on to goods of more remote ranks, as wheat, land, plows, iron. It is evident that the series could be extended back quite indefinitely. This division into ranks would doubtless be a very important matter if it were only true that each commodity belonged to some particular rank, but as a matter of fact there is hardly a commodity in general trade but what has different uses which would make it belong at the same time to an indefinite number of ranks. The effect upon the price of salt is exactly the same whether a given demand is for direct consumption, for use in cooking, or for use in some remote manufacturing process. In every case, so far as economic life is well organized, the use of a commodity is extended in all ranks till the common marginal utility is reached.*

To sum up the criticism of Wieser's theory of imputation I should say that he has introduced many perplexing and useless complications in an attempt to explain a process which in its outline is simple and easily understood. The essential fact that lies at the bottom of Wieser's arguments has already

*I would not underestimate the importance of Menger's observation that all production goods derive their value from the consumption goods (or the consumption uses) which are expected from them. That observation is essential to an understanding of economic life, but the supposed arrangement of goods in ranks only makes it more difficult to apply the theory of value to actual conditions.

been given. The general values of the elements of production are derived from the utility of the elements and tend to equal their respective marginal utilities. It naturally follows under a system of private property and free competition, that any one whose ability or whose possessions enable him to supply many services or services which have a high marginal utility will therein be enabled to secure a large income.

In applying his theory of imputation to the leading factors of production—land, labor and capital—Wieser brings out many interesting distinctions and offers some valuable criticisms. His treatment of capital demands attention on account of its relation to Böhm-Bawerk's more extended work. Discarding the idea that the average man desires to provide for the present at the expense of the future, Wieser seems to find the cause of interest in the productivity of capital. By imagining a number of cases of the use of capital in varying degrees, and supposing the contribution due to capital to be ascertained by solving the equations which the different cases furnished, our author concludes that when the co-operation of capital is an element of production a part of the value of the product is to be imputed to the use of the capital, and that the amount to be so imputed will vary directly with the amount of capital involved and the period of time for which it is withdrawn from other uses. That the use of capital does yield such a surplus value no one can doubt. It can only be regretted that Wieser has not done more to show us why it is so. He does not recognize the simple fact that while longer processes of production give larger returns, abstinence from present consumption is limited by the pressure of present wants so that the marginal utility of waiting is appreciably high.

Wieser and Böhm-Bawerk differ in their methods of approaching the interest problem rather than in the solution itself. Böhm approaches the problem through the observation that interest implies a difference in value between present and future goods. He seems to think that, as a rule, future

wants also are discounted in the present. The former proposition cannot be doubted, but the latter is denied by Wieser and is certainly open to question; furthermore, it is by no means essential to Böhm's theory. While holding present and future wants in equal estimation one may assign a higher value to present goods* on account of the increase which could be obtained from them, or as Böhm would say, on account of the technical superiority of present goods. Though a hundred dollars' worth of enjoyment next year or this year were equally desired, one would undoubtedly prefer to have the hundred dollars at once, because as a matter of fact we know that the hundred dollars could be so invested as to yield an extra five dollars by next year. The difference in value between present and future goods is a necessary feature but not an explanation of interest payments. Both Böhm and Wieser depend for their solutions of the interest problem upon the service of capital in industry. Böhm thus accounts for the higher value of present goods, while Wieser considers the productive contribution imputable to capital as the direct cause of interest.

Having expounded his method of imputing the return from production to the different contributing services, Wieser next takes up the relation between the value of the services of permanent goods, such as land and fixed capital, and the value of the goods themselves. The ordinary principle of capitalization is found to be correct.

The book entitled "The Natural Cost Value of Products," is especially strong and acquits the Austrians of the frequent charge that they do not recognize the influence of cost upon the value of products. Unlike the classical economists, however, Wieser takes the ground that when all the costs are reckoned they equal, under natural conditions, the value of the product. The difference between the two views is a

* By present goods I mean goods at hand as contrasted with goods to be had in the future. The use of the term present goods to denote goods ready for consumption in contrast with production goods is confusing.

matter of terminology. There is no agreement between economists or business men as to where the line shall be drawn between costs and profits. Hired labor is perhaps always included in cost, but the entrepreneur's services, the use of capital and the use of valuable land and other natural resources are, as a rule, altogether or in part omitted. Wieser includes all such services under costs and thus leaves for profits only the fortuitous and temporary gains that arise from economic changes. He recognizes that the available supply of capital, of exceptional talent, of rich mines, or of favorably located land is limited; and if the best results are to be obtained from our productive forces, whether we take the social or the individual standpoint, the use of these productive powers must not be wasted. They must not be assigned to a given line of action without counting the cost. The whole discussion is replete with valuable suggestions.

One other point is made so prominent that it ought not to be overlooked here; namely, that while the recognition of the services of land and capital as a part of the cost of production, refutes the socialist's claim that value is due to labor alone, and accounts for rent and interest, it does not prove anything either for or against the justice or expediency of allowing these sources of value to become sources of private income.

The last few pages of Wieser's book contain a very brief application of the theory of subjective value to the economy of the State. Taxation in proportion to wealth condition is justified on the ground that every one thus would contribute an equal amount of subjective value. Yet Wieser maintains, in opposition to Sax, that a more strictly economic distribution of the burdens of taxation would place them all upon the rich, for thus the total sacrifice would be reduced to a minimum.

In respect to amount of taxation or of expenditure through the State, the principle is taken from Sax that the line should be drawn at the point of greatest return. "If the State should claim too much, it diminishes value by expending goods for purposes of State economy which would

have a higher value if employed in private economy. If it claims too little, value is again diminished—as in this case also the entire importance of the goods is not realized."* The special field for State activity, however, is found along three lines: (1) when only collective action would guarantee sufficient power; (2) when the benefits of an enterprise would be so diffused that it would prove unprofitable in private hands; and (3) in enterprises which are natural monopolies carrying with them powers that would not be safely vested in private hands.

On closing Wieser's book which has "attempted to exhaust the entire sphere of the phenomena of value," one naturally pauses to consider whether any important phase of the subject has been passed without notice. There is little difficulty in finding such omissions.

The treatment of value as a development from utility naturally throws emphasis upon demand, and thus contrasts with the cost theory, which finds the decisive element in value formation upon the side of supply. Wieser's extended treatment of the effect of cost of production upon the supply and through supply upon the value of products frees the Austrians from the charge of having neglected the consideration of supply. Yet it will be noticed that Wieser only attempts to account for the supply of products. The important question that the Austrians have neglected is,—What are the forces which fix the supply of the elements of production? Granting that we have a definite supply of the elements of production, the Austrian theory gives us the best method of accounting for the value of goods, but it will not do to take this supply for granted. The supply of none of these elements is fixed independently of man's volition. The amount of available land might be increased by migration or by transportation facilities. The supply of labor of all grades could be increased, for the time at least, by working harder, and labor could be transferred from one grade to another by

* "Natural Value," p. 235.

education. Capital could be increased by saving more. The principles which determine the supply of these elements of production must form a part of any complete theory of value.

A second field of inquiry, important to the theory of value but neglected by our author, is that which embraces the products and services of monopolies. In drawing a contrast between monopoly goods and cost goods Wieser thus describes the former class: *

> Characteristic of this group is the comparative rarity of such goods as compared with the demand for them, or, it may be, the comparatively small quantity that can be produced. As examples of goods which have pronouncedly the character of monopoly may be mentioned the following: Scarce raw materials, land exceptionally situated, the work of one peculiarly gifted—particularly an artist or scientific worker of the highest rank,—a secret and at the same time successful process (or, more exactly, the exclusive knowledge of such a process, whereby the persons who have it obtain a preference over others), and, finally, works of human hands, which, on account of their size, or on account of technical difficulties, cannot be repeated.

We can hardly say that Wieser is wrong in the definition of monopoly which this passage gives, for there is no agreement among economic writers in the use of the term, but it seems at least more appropriate to use the word monopoly to designate an industry or the condition of an industry which is under a single management to such an extent that the amount of the output or the price of the product or service is not subject to the forces of competition. Under free competition the amount and the price of the product is closely limited by the competitive forces, but under monopoly the output and the price are, within comparatively wide limits, under the dictation of the management.†

In this sense there is no general monopoly of land or of skill, for land-owners compete with each other, and so do

* "Natural Value," p. 108.

* It may be observed that monopoly is a matter of degrees. No enterprise is entirely free from the limitations of competition, and every form of private property has an element of monopoly. As with all natural groups the lines of division cannot be definitely drawn between monopolies and competitive industries, yet the general characteristics of the two groups are evident.

skilled laborers. Rents and wages are fixed for the most part by competitive forces, while the prices of such common and cheap products as sugar and petroleum seem to be largely under the dictation of monopolies. Wieser's treatment of monopoly goods corresponds with his definition. He accounts for the high value of goods that are useful and scarce through the principle of marginal utility, but he fails to consider the real monopolies. It is not the marginal utility of car rides that fixes the fare at five cents, nor is it the marginal utility of a patented invention that determines its selling price. Where a product or a service is controlled by a strict monopoly either the supply is limited arbitrarily or the price is established first and then the use of the article is extended till the marginal utility reaches the arbitrary price. In such cases the price determines the margin of use instead of the marginal utility determining the price. The Austrian formula certainly does not apply here, but the action of monopolies is not without system and the rules which prevail in the establishment of monopoly prices are of increasing importance to the theory of value.

A third shortcoming in the work of the Austrian economists lies in the fact that economic theory is not to be confined to an explanation of values. Professor Macvane* justly complains that they seem to have no idea of subjective cost. A clear and correct theory of value is a matter of immense practical importance, but after all the end of economic action is utility rather than value, and the success of a nation's economy is to be found, not in the value of its possessions, but in their utility, in the privileges for enjoyment and development compared with the discomforts required for securing these privileges. Pain-cost must be compared with total utility, rules must be formed for increasing the surplus of utility, and the forces which determine the distribution of this surplus must be made clear to the end that the progress of the race may be promoted.

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* *Quarterly Journal of Economics*, April, 1893; and ANNALS, vol. iv, p. 348, Nov. 1893.